Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

# Message Text

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PAGE 01 DUBLIN 02526 01 OF 02 261851Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 NSC-05
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 PA-02 PRS-01 IO-14 AGRE-00
FEA-01 INT-05 /119 W
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R 261722Z OCT 77
FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 9770
INFO AMEMBASSY LONDON
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 DUBLIN 2526

USOECD ALSO FOR EMBASSY

USEC ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EINV, ECON, ELAB, ETRD, EI
SUBJECT: USG REVIEW OF INTERNATIONAL INVESTMENT POLICY: IRELAND

REF. STATE 242996

SUMMARY: IRISH GOVERNMENTS OVER THE PAST TWO DECADES HAVE GIVEN HIGH PRIORITY TO THE ATTRACTION OF ROREIGN INVESTMENT AS A MEANS OF FOSTERING ECONOMIC DEVELOPMENT. A SOPHISTICATED SET OF FINANCIAL INCENTIVES INCLUDES AS A KEY ELEMENT A TAX FREE EXPORT PROFIT SCHEME. THE EMBASSY EXPECTS THE INVESTMENT CLIMATE IN
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PAGE 02 DUBLIN 02526 01 OF 02 261851Z

IRELAND TO REMAIN VERY FAVORABLE IN THE FORESEEABLE FUTURE AND THE GOI TO CONTINUE ITS AGRESSIVE PURSUIT OF POTENTIAL INVESTORS. INFORMATION ON THE BACKGROUND, TARGETS AND SPECIFIC INCENTIVES OF THE IRISH GOVERNMENT'S CURRENT PROGRAM FOLLOW. END SUMMARY.

1. BACKGROUND: GOI SUPPORT FOR FOREIGN INVESTMENT INFLOWS HAS BEEN UNWAVERINGLY STRONG, ON NON-PARTISAN BASIS, OVER LAST TWO

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

DECADES. IRELAND'S INDUSTRIAL DEVELOPMENT STATEGY BEGAN TO EVOLVE IN THE POST-WAR PERIOD. THE DRIFT OF WORKERS OUT OF THE AGRICULTURAL SECTOR HAD TRADITIONALLY BEEN RELIVED BY EMIGRATION. DURING THE 1950'S, THE GOI DECIDED ON A MORE POSITIVE AND AGRESSIVE APPROACH TO THE SOLUTION OF THIS PROBLEM BY EMPHASIZING INDUSTRIAL GROWTH AND EXPORT MARKETS. A WIDE RANGE OF INVESTMENT INCENTIVES WERE ESTABLISHED TO ATTRACT FOREIGN FUNDING, TECHNOLOGY AND MANAGERIAL EXPERTISE. TODAY, AS IRELAND'S UNEMPLOYMENT RATE REMAINS THE HIGHTEST AMONG EC NATIONS AND ITS STAGE OF ECONOMIC DEVELOPMENT THE LOWEST, THE PROGRAM IS REGARDED AS A CENTRAL PART OF THE GOVERNMENTAL EFFORT TO STIMULATE AND MODERNIZE THE ECONOMY.

2. THE INDUSTRIAL DEVELOPMENT AUTHORITY: THE IDA IS AN AUTONOMOUS STATE BODY RESPONSIBLE FOR PROMOTING INDUSTRIAL DEVELOPMENT IN IRELAND. THE IDA'S MAIN TASK IS TO ENCOURAGE LOCAL AND FOREIGN INDUSTRIAL CONCERNS TO ESTABLISH MANUFACTURING OPERATIONS IN IRELAND. INCENTIVES ARE NOW ALSO GRANTED TO CERTAIN SERVICE-ORIENTED CONCERNS, SUCH AS ENGINEERING CONSULTANTS, PROCESS ENGINEERS AND COMPUTER SOFTWARE HOUSES. IDA ADMINISTERS ALL FINANCIAL INCENTIVES AVAILABLE TO INDUSTRY, AND PROVIDES ASSISTANCE IN A BROAD RANGE OF AREAS, INCLUDING SITE SELECTION, ESTABLISHMENT OF INDUSTRIAL ESTATES, LOCATION OF HOUSING, AND WORKER TRAINING.

3. TARGET AREAS: IDA PUTS SPECIAL EMPHASIS ON MANUFACTURING
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AND SERVICE INDUSTRIES WHICH ARE EXPORT ORIENTED WITH A HIGH VALUE ADDED CONTENT AND GOOD LONG-TERM GROWTH PROSPECTS. INDUSTRIES WHICH CREATE SKILLED LABOR, UTILIZING LOCAL RAW MATERIALS AND PROVIDING LINKAGE OR SPIN-OFF BENEFITS BY CREATING WORK FOR EXISTING FIRMS ARE PREFERRED. EXTRA BENEFITS ARE AVAILABLE TO FIRMS LOCATING IN THE LEAST DEVELOPED PARTS OF THE COUNTRY (USUALLY IN THE WEST). ACCORDING TO THE IDA AREAS OF MOST RAPID EXPANSION HAVE BEEN FOOD, PHARMACEUTICALS, HEALTH CARE PRODUCTS, ELECTRONICS, CHEMICALS, TEXTILES, METALS, ENGINEERING AND LEISURE EQUIPMENT.

4. TAX FREE EXPORT PROFITS: A KEYSTONE OF THE INCENTIVE PROGRAM IS THE TAX FREE STATUS OF EXPORT PROFITS, WHICH MAY BE REINVESTED OR FREELY REPATRIATED. IRELAND WAS PERMITTED TO CONTINUE THE USE OF THIS DIRECT EXPORT SUBSIDIZATION AFTER ACCESSION TO THE EC DUE TO HER POSITION AS LEAST DEVELOPED MEMBER STATE IN THE COMMUNITY. THE GOI IS AWARE THAT ITS EC PARTNERS ARE NOT ENTHUSIASTIC ABOUT THIS ASPECT OF THE IRISH INCENTIVE PROGRAM, BUT THIS DOES NOT IMPLY A READINESS TO ABANDON IT IN ADVANCE OF THE SCHEDULED EXPIRY DATE OF 1990 PROVIDED BY IRISH LEGISLATION. RECENT REPORTS THAT THE EC COMMISSION MIGHT BE PREPARING TO SUGGEST THAT THE PROGRAM END THIS YEAR PROVOKED AN IMMEDIATE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

TRIP TO BRUSSELS BY NEW MINISTER OF INDUSTRY, COMMERCE AND ENERGY
O'MALLEY, WHO RECEIVED ASSURANCES THAT NO THREATENING ACTION
WAS IMMINENT. IRISH OFFICIALS ARE CONSIDERING ALTERNATE PROGRAMS
WHICH MIGHT PROVE MORE COMPATIBLE WITH THE EC REGIME, BUT IT IS
UNLIKELY THAT ANY DECISIVE ACTION TO PHASE OUT THE

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PAGE 01 DUBLIN 02526 02 OF 02 262002Z
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LAB-04 SIL-01 L-03 PA-02 PRS-01 IO-14 AGRE-00
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AMEMBASSY ROME

UNCLAS SECTION 2 OF 2 DUBLIN 2526

PROGRAM WILL OCCUR SOON WITHOUT STRONG EXTERNAL PRESSURE.
GOVERNMENT SPOKESMEN HAVE PUBLICLY STATED THAT TERMINATION OF
THIS PROGRAM WOULD NOT EFFECT ELIGIBLE COMPANIES ALREADY
ESTABLISHED IN IRELAND, AND HAVE PROMISED EQUALLY BENEFICIAL
INDUCEMENTS TO POTENTIAL NEW INVESTORS IF AN WHEN CHANGES ARE
MADE. OF IMMEDIATE CONCERN TO IRISH OFFICIALS IS THE POSSIBILITY
THAT CHANGES IN US TAX LEGISLATION MAY ELIMINATE DEFERRAL OF TAX
LIABILITY ON UNREPATRIATED FOREIGN PROFITS, AN EVENTUALITY WHICH
WOULD NEGATE THE CURRENT BENEFITS OF THE EXPORT PROFIT EXEMPTION
FOR US INVESTORS, WHO ARE THE LARGEST SINGLE SOURCE OF FOREIGN
CAPITAL INFLOWS (US FIRMS HAVE BEEN RESPONSIBLE FOR 45 PERCENT
OF TOTAL FOREIGN INVESTMENT IN FIXED ASSETS SINCE 1960).

5. TAX RELIEF: IN ALL PARTS OF THE COUNTRY COMPANIES CAN
DEPRECIATE 100 PERCENT OF THE TOTAL COST OF FIXED PLANT AND MACHINERY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009



AND WRITE IT OFF AGAINST TAX. IN UNDERVELOPED AREAS (MOSTLY THE WEST) AND ADDITIONAL INVESTMENT ALLOWANCE OF 20 PERCENT FOR NEW PLANT AND MACHINERY IS GIVEN. ON INDUSTRIAL BUILDINGS THERE IS AN INITIAL ALLOWANCE OF 50 PERCENT AND AN ANNUAL ALLOWANCE OF 4 PERCENT.

6. CAPITAL GRANTS: IDA GIVES CASH GRANTS TOWARDS THE COST OF FIXED ASSETS, INCLUDING SITE DEVELOPMENT, WITH THE SCALE OF THE GRANT DEPENDING ON THE TYPE OF INDUSTRY AND LOCATION. FOR MEDIUM SIZED PROJECTS GRANT LEVELS ARE PERCENTAGE OF FIXED INVESTMENT, RANGING FROM A MAXIMUM OF 50 PERCENT IN UNDERVELOPED AREAS TO A MAXIMUM OF 35 PERCENT IN OTHER AREAS. FOR LARGER CAPITAL INTENSIVE PROJECTS THE GRANTS ARE GEARED TO THE LOCATION, AND THE NUMBER OF WORKERS EMPLOYED.

7. OTHER INCENTIVES: GRANTS TOWARDS THE COST OF TRAINING PROGRAMS FOR WORKERS IN NEW INDUSTRIES ARE AVAILABLE. RE-EQUIPMENT GRANTS TO ENCOURAGE MODERNIZATION AND EXPANSION OF EXISTING INDUSTRY CAN REACH 35 PERCENT OF FIXED ASSETS IN DESIGNATED AREAS, AND 25 PERCENT ELSEWHERE, AND SUBSIDIES ARE AVAILABLE TO PROMOTE R & D. IN ADDITION THE IDA MAY GUARANTEE LOANS, SUBSIDIZE FACTORY RENTS AND INTEREST CHARGES, IN SOME CASES TAKE AN EQUITY STAKE IN NEW VENTURES, AND HAS BEEN KNOWN TO BAIL OUT FINANCIALLY TROUBLED FIRMS.

8. MISCELLANEOUS: WITH RESPECT PARA 3 OF REFTEL, FOREIGN INVESTORS ARE NOT EXEMPT FROM GENERAL LAWS OR REGULATIONS. GOI DOES NOT DEPEND ON RESTRICTIONS ON TRADE UNIONS OR SIMILAR MEASURES TO ATTRACT FOREIGN INVESTMENT. IN ADDITION TO FINANCIAL INCENTIVES LISTED ABOVE GOI PUTS HEAVY EMPHASIS ON LONG-STANDING PRO-INVESTMENT CLIMATE, REASONABLE LEVEL OF WORKER EDUCATION, LOW WAGE SCHEDULE (COMPARED TO EC PARTNERS IN GENERAL), ON RELATIVE STABILITY OF WORK FORCE, AND, VIS-A-VIS US FIRMS ON LOCAL USE OF ENGLISH
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LANGUAGE. FOREIGN INVESTORS ARE NOT OBLIGED TO TAKE IRISH PARTNERS. SHANNON

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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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# Message Attributes

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**Executive Order:** N/A
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**Original Handling Restrictions:** n/a
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**Review Release Event:** n/a
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**SAS ID:** 794470
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**Status:** NATIVE
**Subject:** USG REVIEW OF INTERNATIONAL INVESTMENT POLICY: IRELAND
**TAGS:** EINV, ECON, ELAB, ETRD, US, EI
**To:** STATE USOECD
**Type:** TE
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22 May 2009
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